

**ALASKA STUDENT LOAN CORPORATION**  
(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2005 and 2004

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Unaudited Balance Sheets

December 31, 2005 and 2004

Assets	2005	2004
Current assets:		
Investments (note 3)	\$ 36,460,407	27,324,838
Accrued interest receivable	147,629	123,449
Total current assets	36,608,036	27,448,287
Restricted assets:		
Cash (note 3)	1,739,474	1,532,324
Investments (note 3)	394,887,760	326,891,608
Loans receivable (note 4)	602,924,587	596,369,140
Less allowance for:		
Doubtful loans (note 5)	(105,720,623)	(101,804,979)
Forgiveness (note 6)	(2,702,369)	(2,361,557)
Net loans receivable	494,501,595	492,202,604
Accrued interest receivable, net of forgiveness allowance of \$761,329 and \$763,402 in 2005 and 2004, respectively	16,976,419	16,460,778
Due from U.S. Department of Education	700,943	716,342
Bond issuance cost, net of accumulated amortization of \$2,973,009 and \$3,883,503 in 2005 and 2004, respectively	6,424,920	5,663,164
Total restricted assets	915,231,111	843,466,820
Total assets	\$ 951,839,147	870,915,107

(Continued)

See accompanying notes to the unaudited financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Balance Sheets

December 31, 2005 and 2004

Liabilities and Net Assets	2005	2004
<b>Liabilities:</b>		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 447,547	470,554
Due to State of Alaska	66,110	1,401
Warrants outstanding	25,651	30,640
Deferred credit (note 2)	4,095,212	10,586,953
Return of capital payment declared (note 11)	1,900,000	3,100,000
Total current unrestricted liabilities	<u>6,534,520</u>	<u>14,189,548</u>
Current liabilities payable from restricted assets:		
Accounts payable		
Due to State of Alaska	76,221	24,896
Warrants outstanding (note 4)	2,189,150	6,950,772
Return of capital payment declared (note 11)	114,777,090	49,726,303
Bond interest payable	10,333,883	8,723,073
Current portion of arbitrage rebate payable (note 8)	68,812	110,817
Current portion of bonds payable (note 7)	35,380,000	31,195,000
Total current liabilities	<u>162,825,156</u>	<u>96,730,861</u>
Noncurrent liabilities payable from restricted assets:		
Arbitrage rebate payable (note 8)	316,212	511,995
Bonds payable, net of bond premiums/discounts (note 7)	614,085,044	510,131,909
Total noncurrent liabilities	<u>614,401,256</u>	<u>510,643,904</u>
Total liabilities	<u>783,760,932</u>	<u>621,564,313</u>
Commitments and contingencies (note 11)	—	—
<b>Net assets:</b>		
Restricted net assets	138,004,699	236,092,055
Unrestricted net assets (note 2)	30,073,516	13,258,739
Total net assets	<u>168,078,215</u>	<u>249,350,794</u>
Total liabilities and net assets	<u>\$ 951,839,147</u>	<u>870,915,107</u>

See accompanying notes to the unaudited financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Unaudited Statements of Revenue, Expenses

and Changes in Net Assets

Six Months Ended December 31, 2005 and 2004

	2005	2004
Operating revenue - interest income - student loans	\$ 17,916,468	16,754,568
Operating expenses:		
Provision for:		
Loan losses (note 5)	2,646,919	3,305,358
Forgiveness (note 6)	172,183	243,803
Operations	5,888,182	5,326,827
Total operating expenses	8,707,284	8,875,988
Operating income	9,209,184	7,878,580
Nonoperating revenue (expense), excluding special item:		
Interest income from investments	5,718,354	3,947,503
Interest expense	(13,518,493)	(10,595,926)
Amortization of bond issuance costs	(298,700)	(255,055)
Net nonoperating expense	(8,098,839)	(6,903,478)
Income before return of capital ("statutory net income")	1,110,345	975,102
Return of capital (note 11)	(1,900,000)	(3,100,000)
Change in net assets	(789,655)	(2,124,898)
Total net assets-beginning	168,867,870	251,475,692
Total net assets-ending	\$ 168,078,215	249,350,794

See accompanying notes to the unaudited financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Unaudited Statements of Cash Flows

Six Months Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Principal repayments received on loans	\$ 26,473,193	26,157,412
Interest received on loans	14,622,595	13,325,540
Other cash receipts	598,661	1,156,511
Loans originated	(34,751,552)	(37,372,609)
Cash paid to Alaska Commission on Postsecondary Education for operating expenses	(5,839,033)	(5,335,767)
Net cash provided by (used for) operating activities	1,103,864	(2,068,913)
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	61,827,108	—
Bond issue costs	(608,727)	(50,342)
Interest paid on bonds	(11,454,622)	(10,942,604)
Principal payments on bonds	(41,400,000)	(81,495,000)
Net cash provided by noncapital financing activities	8,363,759	(92,487,946)
Cash flows from investing activities:		
Interest received on investments	5,331,336	3,839,709
Investments matured	3,593,243,624	1,644,782,907
Investments purchased	(3,579,983,243)	(1,521,486,912)
Net cash provided by investing activities	18,591,717	127,135,704
Cash flows from capital activities:		
Bond issue costs	(1,403)	(1,430)
Interest paid on bonds	(2,318,001)	(754,356)
Principal payments on bonds	(2,865,000)	(3,135,000)
Return of capital payments	(22,622,173)	(30,873,697)
Net cash provided by capital activities	(27,806,577)	(34,764,483)
Net increase in cash	252,763	(2,185,638)
Cash at beginning of period	1,486,711	3,717,962
Cash at end of period	\$ 1,739,474	1,532,324

(Continued)

See accompanying notes to the unaudited financial statements

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Unaudited Statements of Cash Flows

Six Months Ended December 31, 2005 and 2004

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,209,184	7,878,580
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in net loans receivable	(9,386,184)	(16,683,407)
Decrease in net accrued interest receivable on loans	105,885	856,610
Decrease (increase) in other assets	443,688	(326,076)
Increase in accounts payable	80,765	280,191
Decrease in due to State of Alaska	(278,306)	(462,344)
Increase in warrants outstanding	1,783,218	6,394,146
Decrease in deferred credit	(854,386)	(6,613)
	(8,105,320)	(9,947,493)
Net cash provided by operating activities	\$ 1,103,864	(2,068,913)
Summary of noncash transactions that affect recognized assets and liabilities:		
Provision for loan loss and forgiveness	\$ (4,394,258)	(3,549,161)
Provision for lost interest and forgiveness	(236,317)	(1,285,042)
Write-off of uncollectible loans	1,863,430	1,275,512
Forgiveness granted - principal	(114,800)	(278,302)
Forgiveness granted - interest	(27,927)	(50,184)
Bond premium (discount) amortization	515,219	81,711
Bond issuance cost amortization	(298,700)	(255,055)
Deferred credit used for loan loss	1,581,076	442,122
Deferred credit amortization	—	472,094
Interest capitalization	4,549,609	3,870,520
Unrealized loss on investments	(509,509)	(1,418,015)

See accompanying notes to the unaudited financial statements

# **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

### **(1) Authorizing Legislation and Organization**

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska, was created in 1987 by an act of the State of Alaska Legislature (Legislature). The purpose of the Corporation is to provide low-interest education loans to Alaskans. The Corporation is authorized, with certain limitations, to issue its own bonds and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. All obligations so issued shall not be deemed to constitute a debt of the State of Alaska (State).

The State Governor appoints the Corporation's Board of Directors and the staff of the Alaska Commission on Postsecondary Education (Commission) administers the Corporation. The Commission's budget provides for reimbursement from the Corporation for operating and capital expenses. The Commission's budget is subject to review and approval from both the executive and legislative branches of the State.

The State has provided education loans through various programs since 1968. Prior to the creation of the Corporation, substantially all such loans were recorded in the Scholarship Revolving Loan Fund and Teacher Scholarship Loan Fund (Funds) of the State. In April 1988, by act of the Legislature, the assets, liabilities, and equities of the Funds were transferred to the Corporation effective December 30, 1987.

Loans are financed through the issuance of tax-exempt bonds or with recycled principal and interest repayments. The bonds outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of bonds.

### **(2) Summary of Significant Accounting Policies**

#### **(a) *Fund Accounting***

The financial activities of the Corporation, which are restricted by the Corporation's bond indentures and the requirements of the Legislature, are recorded in various funds as specified in such instruments or necessitated by appropriation requirements or sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation's funds are considered to be enterprise funds for financial reporting purposes with revenues recognized when earned and expenses when incurred.

#### **(b) *Standard Application***

As allowed by the Government Accounting Standards Board Statement No. 20 (GASB 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

#### **(c) *Fiscal Year***

The Corporation's fiscal year begins July 1 and ends June 30, consistent with the State's fiscal year.

# **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

(d) ***Management Estimates***

In preparing the financial statements in accordance with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual amounts could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed below.

(e) ***Loans***

Loans represent education loans issued through the AlaskAdvantage<sup>®</sup> Loan Programs, which include Alaska Supplemental Loans, Teacher Education Loans (TEL), Family Education Loans (FEL), (collectively referred to as supplemental loans), and federally guaranteed Stafford, PLUS and Consolidated loans. The terms of the loans vary depending on the year of inception and loan type. Interest accrues at fixed and variable rates ranging from 2.875% to 9% and is generally determined by loan type and issue date. The Corporation offers borrower benefits, which reduce the interest costs for eligible borrowers. The borrower benefit offerings are approved by the Corporation Board of Directors annually and may vary from year-to-year.

A borrower of TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the program.

For certain supplemental loans awarded prior to July 1, 1987, borrowers can obtain forgiveness for up to 50% of loan principal and interest if the borrower resides in Alaska for specified periods upon successful completion of the program of study for which the loan was awarded.

(f) ***Allowance for Doubtful Loans***

The allowance for doubtful loans represents management's estimate, based on experience, of all loans that will ultimately be uncollectible. The Corporation charges off supplemental loans to the allowance upon death, bankruptcy as allowed by law, total disability of the borrower, or when a payment has not been received for five years on loans not in deferment.

(g) ***Interest on Education Loans***

Interest on education loans is accrued when earned. For federally guaranteed subsidized loans, interest from the disbursement date of the loan until a date that is six months after the student withdraws from school (plus any authorized deferment periods) is billed to and paid by the U.S. Department of Education under the Federal Family Education Loan Program. The borrower pays interest subsequent to that date. For non-subsidized federally guaranteed loans and for all supplemental loans issued after June 30, 2002 interest from the disbursement date is paid by the borrower.

Certain supplemental loans are non-interest bearing while the borrower is completing eligible studies. All state supplemental loans issued prior to July 1, 1996 are non-interest bearing during approved periods of deferment and postponement. Loans issued prior to July 1, 1987 are also non-interest bearing during a one-year grace period following completion of studies and a six-month



**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

sub-grace period following an approved deferment. Non-interest bearing loans are approximately \$18,506,000 at December 31, 2005.

Historical rates are used to determine the allowance for doubtful interest. The allowance for doubtful interest is approximately \$21,000,000 and \$22,000,000 as of December 31, 2005 and 2004, respectively. The provision for doubtful interest is a reduction of interest income and was approximately \$1,747,000 and \$1,180,420 for the six-month ended December 31, 2005 and 2004, respectively.

(h) ***Deferred Credit***

Borrowers who received supplemental loans after June 30, 1994 were charged an origination fee of 1%, 3% or 5%, generally determined by loan issue date. Its purpose is to offset loan losses due to death, disability, bankruptcy or default of borrowers charged the origination fee. The origination fee is recognized as revenue using the straight-line method equal to the loan repayment period and assumes repayment begins the year following origination. The allowance for doubtful loans has been reduced by the unamortized deferred credit.

(i) ***Allowance for Forgiveness***

The allowance for forgiveness represents management's estimate, based on experience of the loan forgiveness that will ultimately be applied for and granted.

(j) ***Bond Issuance Costs***

Bond issuance costs include underwriters' fees and other costs incurred in connection with the issuance of bonds and are amortized using the straight-line method.

(k) ***Bond Discounts/Premiums and Deferred Amounts on Refundings***

Bond discounts, premiums and deferred amounts on refundings are amortized using the straight-line method.

(l) ***Income Taxes***

The Corporation, as a government instrumentality, is exempt from federal and state income taxes.

(m) ***Investments***

The Corporation carries all investments at fair value.

(n) ***Unrestricted Net Assets***

Unrestricted net assets represent assets of the Corporation not pledged as collateral for specific bond indentures. GASB Statement No. 34 requires assets restricted by statute to be reported as unrestricted. Assets restricted by statute are approximately \$25,800,000 and \$22,100,000 at December 31, 2005 and 2004, respectively.

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

**(3) Cash and Investments**

**(a) Cash**

Cash at December 31, 2005 is \$1,739,474 consisting mainly of deposits held in trust. Cash is restricted by bond resolutions.

**(b) Investments**

The fair value as of December 31, 2005 of the Corporation's investments, a majority of which are restricted by bond resolutions and statutory agreements, is shown below:

Restricted	\$ 394,887,760
Unrestricted	36,460,407
	<u>\$ 431,348,167</u>

Restricted investments include amounts specifically designated for financing education loans. At December 31, 2005 the investments available for financing education loans total \$57,275,158.

The Corporation invests in the State's General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's Short-term and Intermediate-term Fixed Income Pools.

Non-pooled	\$ 420,734,492
Pooled	10,613,675
	<u>\$ 431,348,167</u>

**(c) Investment Policies**

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested. All funds are classified as pledged or non-pledged and are managed either by staff or by external investment managers. All of these factors determine the applicable investment guidelines used when making investment decisions. The Corporation's investment policies provide investment guidelines for non-pledged funds.

The following securities are eligible for investment under the Corporation's investment policies:

- Debt instruments issued by the U.S. Government, its Agencies and Instrumentalities.
- Investment contracts and repurchase agreements with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's (S&P) or A- by Moody's and where collateral is maintained at a minimum level of 102% when using direct obligations of the U.S. Treasury or 103% when using allowable agency securities.

## ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

### Notes to Unaudited Financial Statements

December 31, 2005 and 2004

- Guaranteed investment contracts with a corporation or other entity which has a long-term debt rating of at least A3 by Standard and Poor's (S&P) or A- by Moody's. The contract maturity is limited to five years or less.
- Investments in a money fund rated AAAm or AAAm-G or better by Standard & Poor's and Aaa by Moody's.

In addition to the above guidelines, the following apply to non-pledged funds managed by an external investment manager:

- General obligations of any state or municipality with a published rating of A or better, and debt instruments that have been issued by domestic entities rated A or above by both S&P and Moody's or the equivalent by another nationally recognized rating agency, and dollar denominated debt instruments of comparable quality issued by non-domestic entities.
- Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation mortgage backed instruments as well as asset-backed securities.
- Certificates of deposit and term deposits of United States Domestic financial institutions which are members of the Federal Deposit Insurance Corporation provided that such entities have the highest credit rating assigned by a nationally recognized rating service, and which may be readily sold in the secondary market at prices reflecting fair value.
- Short-term domestic corporate promissory notes (commercial paper) payable in United States dollars of the highest rating assigned by a nationally recognized rating service.

#### (d) ***Concentration Risk***

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for pledged investments. The Corporation's policies set out maximum concentration limits for all investment contracts and for non-pledged funds managed by an external investment manager.

For investment contracts, the diversification standard is two-fold and applies to each bond indenture individually. First, investment agreement providers will be limited to providing investments to the lesser of \$50,000,000 or 25% of total financial assets. Second, no investment agreement provider may hold more than 25% of the total capital reserve fund investments. These diversification standards are not applicable to direct purchase investments or to acquisition funds that will be reduced to a maximum of \$50,000,000 in the first six months of the agreement.

Concentration to any one issuer, of non-pledged funds managed by an external investment manager, other than securities of the U.S. Government, its agencies or instrumentalities, is limited to 5% of the portfolio's market value at the time of purchase.

## **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

### **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

Pledged funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those instances, if any, where an indenture or governing agreement is less restrictive than the Corporation's investment policies for non-pledged funds, the investment will be made in accordance with the more restrictive investment policy.

(e) ***Credit Risk***

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities. Additionally, for funds managed by external investment managers, the weighted average quality rating of the portfolio must be maintained at AA- or better as determined by Standard and Poor's or the equivalent by another nationally recognized rating agency.

(f) ***Custodial Credit Risk***

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Corporation has not established a formal custodial credit risk policy for its investments.

(g) ***Interest Rate Risk***

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-pledged investments, the Corporation mitigates interest rate risk by structuring its investment's maturities to meet cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in its bond indentures and contractual and statutory agreements.

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

(h) ***Modified Duration***

Modified duration estimates the sensitivity of an investment to interest rate changes.

The Corporation's investment policies require that the duration of each externally managed fixed income portfolio be within plus or minus 20% of the duration of the Lehman Aggregate Bond Index.

(i) ***Investment Holdings Greater than Five Percent of Total Non-pooled Portfolio***

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's fiscal policy and investments which have no established concentration limits. Investments in mutual funds and investment pools are excluded from this summary.

(j) ***Pooled Investments***

The State's GeFONSI consists of investments in the State's Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool:

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities.

Intermediate-term Fixed Income Pool:

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to  $\pm 20\%$  of the Merrill Lynch 1-5 year Government Bond Index.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

## **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

### **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may only be purchased if rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may only be purchased if rated by one of the rating agencies mentioned above if they are rated AAA.

#### Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group.

#### **(k) *Securities Lending***

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Corporation and the borrower receive a fee from earnings on invested collateral. The Bank and the Corporation share a fee paid by the borrower for loans not collateralized with cash.

# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

## Notes to Unaudited Financial Statements

December 31, 2005 and 2004

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

### (4) Restricted Loans Receivable

A summary of restricted loans receivable, all of which are installment loans to individuals, at December 31 follows:

	2005	2004
Alaska Supplemental Loans	\$ 533,382,897	540,996,363
Teacher Education Loans	8,505,546	9,100,619
Family Education Loans	7,901,330	9,060,809
Federal Family Education Loans	53,134,814	37,211,349
	<u>\$ 602,924,587</u>	<u>596,369,140</u>

The loan portfolio summarized by loan status at December 31 follows:

	2005	2004
Enrollment	\$ 116,968,974	125,466,928
Grace	13,835,421	12,706,204
Repayment	403,438,673	392,283,042
Deferment	68,681,519	65,912,966
	<u>\$ 602,924,587</u>	<u>596,369,140</u>

Loans awarded and not disbursed at December 31, 2005 and 2004 total \$29,841,570 and \$21,402,412 respectively.

Included in loans receivable are \$2,142,995 and \$6,872,656 of loan warrants issued but not yet redeemed by the borrowers at December 31, 2005 and 2004, respectively. Redemption is contingent upon the borrowers meeting certain eligibility requirements.

Restricted loans receivables are pledged to the Corporation's outstanding bonds.

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

(5) **Allowance for Doubtful Loans**

A summary of the activity in the allowance for doubtful loans at December 31 follows:

	<u>2005</u>	<u>2004</u>
Balance at beginning of period	\$ 103,356,058	99,333,011
Provision for loan losses	2,646,919	3,305,358
Net loans charged off	<u>(282,354)</u>	<u>(833,390)</u>
Balance at end of period	\$ <u>105,720,623</u>	<u>101,804,979</u>

(6) **Allowance for Forgiveness**

As described in note 2, the Corporation disburses loans of which principal and interest become eligible for forgiveness under certain conditions.

A summary of the activity in the allowance for forgiveness at December 31 follows:

	<u>2005</u>	<u>2004</u>
Balance at beginning of period	\$ 2,644,986	2,396,056
Provision for forgiveness	172,183	243,803
Forgiveness granted	<u>(114,800)</u>	<u>(278,302)</u>
Balance at end of period	\$ <u>2,702,369</u>	<u>2,361,557</u>



# ALASKA STUDENT LOAN CORPORATION

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

## (7) Bonds Payable

(a) Bonds payable at December 31 consist of the following:

	Original Amount	Amount outstanding	
		2005	2004
Outstanding under the 1988 Master Indenture:			
1995 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.5% to 5.75%, due 2006 to 2009	55,000,000	—	21,920,000
1996 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.75% to 6.35%, due 2006 to 2013	38,000,000	26,000,000	28,500,000
1997 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.15% to 5.75%, due 2006 to 2015	75,000,000	60,000,000	69,000,000
1998 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.6% to 5.3%, due 2006 to 2016	88,570,000	49,000,000	50,000,000
1999 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 4.4% to 5.45%, due 2006 to 2017	40,000,000	32,500,000	34,750,000
2000 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 5.3% to 6.05%, due 2006 to 2018	32,140,000	30,540,000	31,645,000
term bonds, 6.0%, due July 1, 2016	7,860,000	7,860,000	7,860,000
2001 Series A Student Loan Revenue Bonds serial bonds, fixed rates ranging from 3.95% to 4.65%, due 2006 to 2011	33,345,000	20,650,000	24,275,000
	<u>\$ 369,915,000</u>	<u>226,550,000</u>	<u>267,950,000</u>
Less bond discounts		—	(7,406)
Sub-total 1988 Master Indenture		<u>\$ 226,550,000</u>	<u>267,942,594</u>

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

	Original Amount	Amount outstanding	
		2005	2004
Outstanding under the 2002 Master Indenture:			
2002 Series A and B Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2037	\$ 62,500,000	36,100,000	36,100,000
2003 Series A-1 and A-2 Education Loan Revenue Bonds			
auction variable rate bonds, due 2011 to 2038	47,000,000	47,000,000	47,000,000
2004 Series A-1, A-2, A-3 Education Loan Revenue Bonds			
auction variable rate bonds due 2044	93,100,000	93,100,000	93,100,000
serial bonds, fixed rate ranging			
from 5.0% to 5.25%, due 2011 to 2017	22,015,000	22,015,000	22,015,000
2005 Series A Educational Loan Revenue Bonds			
fixed rates ranging from 4.5% to 5.0%, due 2008 to 2018	58,250,000	58,250,000	—
	\$ <u>282,865,000</u>	256,465,000	198,215,000
Plus bond premium		4,265,112	912,710
Sub-total 2002 Master Indenture		\$ <u>260,730,112</u>	<u>199,127,710</u>
Outstanding under the 2004 Indenture:			
2004 Series A Capital Project Revenue Bonds			
serial bonds, fixed rates ranging			
from 2.0% to 4.0%, due 2006 to 2017	\$ 69,910,000	61,080,000	66,775,000
term bonds, 4.0%, due July 1, 2018	5,230,000	5,230,000	5,230,000
	\$ <u>75,140,000</u>	66,310,000	72,005,000
Plus bond premium		2,070,261	2,251,605
Sub-total 2004 Indenture		\$ <u>68,380,261</u>	<u>74,256,605</u>
Outstanding under the 2005 Indenture:			
2005 Series A State Projects Revenue Bonds			
serial bonds, fixed rates ranging			
from 5% to 5.5%, due 2006 to 2014	\$ 88,305,000	88,305,000	—
Plus bond premium		5,499,671	—
Sub-total 2005 Indenture		\$ <u>93,804,671</u>	<u>—</u>
Total Bonds Payable	\$ <u>816,225,000</u>	637,630,000	538,170,000
Plus bond premium		11,835,044	3,156,909
		\$ <u>649,465,044</u>	<u>541,326,909</u>

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## Notes to Unaudited Financial Statements

December 31, 2005 and 2004

- (b) The minimum payments and sinking fund installments for the five years subsequent to December 31, 2005 and thereafter are as follows:

Period ending June 30	Principal	Interest	Total
2006	\$ 35,380,000	28,582,328	63,962,328
2007	39,300,000	26,996,728	66,296,728
2008	40,910,000	25,161,263	66,071,263
2009	42,895,000	23,207,970	66,102,970
2010	45,305,000	21,027,428	66,332,428
2011-2015	247,420,000	64,755,374	312,175,374
2016-2020	42,520,000	25,536,770	68,056,770
2021-2045	143,900,000	99,338,624	243,238,624
	<u>\$ 637,630,000</u>	<u>314,606,483</u>	<u>952,236,483</u>

- (c) The 1988 and 2002 Master Indenture Bonds are private activity bonds. The 2004 and 2005 Indenture Bonds are not private activity bonds. All of the bonds pay interest semiannually. The bonds are secured by education loans and other assets of the Corporation and are not obligations of the State.

All of the bonds are subject to certain early redemption features, both mandatory and at the option of the Corporation. In addition, the bond indentures contain covenants relative to restrictions on additional indebtedness.

All of the bonds outstanding under the 1988 Master Indenture are insured by Ambac Assurance Corporation. The 2004 Capital Project Revenue Bonds outstanding under the 2004 Indenture are insured by MBIA Insurance Corporation. The 2005 State Projects Revenue Bonds outstanding under the 2005 Indenture are insured by Financial Security Assurance, Inc.

- (d) On August 16, 2004 a portion of the Series 2002 A bonds were refunded with the refunding portion of the Series 2004 A-1 bonds. The 2004 A-1 bonds were issued as auction variable rate certificates in which the interest is reset every 35 days and the principal payment due June 1, 2044. The initial interest rate on the Series 2004 A-1 bonds was 1.20%. The refunded Series 2002 A bonds were issued as auction variable rate certificates in which the interest rate reset every 35 days and the principal payments were due June 1, 2009 and 2010. The refunding was effected to extend the maturity dates of these bonds to June 1, 2044. There is no expected economic gain or change in debt service payments over the next six years.
- (e) On July 1, 2005 the Corporation called all outstanding Series 1995 A Bonds at par in the amount of \$15,900,000.
- (f) On July 28, 2005 the Corporation issued \$58,250,000 of Education Loan Revenue Bonds, Senior 2005 Series A, to finance education loans. The bonds were issued with fixed interest rates ranging from 4% to 5%.

# **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

### **(8) Arbitrage Rebate Payable**

In connection with the Corporation's tax-exempt bond issues, the Corporation is subject to rebatable arbitrage when bond proceeds are invested in investments and education loans. Interest income from investments and education loans is limited by the U.S. Treasury regulations. The amount accrued for arbitrage rebate liability at December 31, 2005 and 2004 represents an estimated amount of arbitrage rebate due to the federal government for excess earnings on the bond proceeds.

### **(9) Student Loan Interest and Special Allowance on Federally Guaranteed Loans**

The U.S. Department of Education makes quarterly interest subsidy payments on behalf of qualified borrowers until the borrower is required under provisions of the Higher Education Act to begin repayment. Repayment on Stafford education loans normally begins within six months after borrowers complete their course of study, leave school, or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of PLUS loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period.

The U.S. Department of Education provides a special allowance payment to lenders participating in the Stafford, PLUS, and Consolidation loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed after June 30, 1999 and financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of the three-month Financial Commercial Paper, plus a predetermined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993 are eligible for full special allowance and are not subject to a minimum return.

### **(10) Retirement Plan**

Effective July 1, 1997, the Commission adopted the provisions of Government Accounting Standards Board Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Government Employers*. There was no impact on the financial statements as a result of GASB 27.

#### **(a) Plan Description**

The Commission and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), as a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, post-employment healthcare, and death and disability benefits to eligible employees. All full-time employees are required to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the Legislature.

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

Employees hired prior to July 1, 1986, with five or more years of credited service, are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty. For employees hired after June 30, 1986, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit for the first ten years of service is equal to 2% per year of the member's highest three-year average yearly compensation, 2.25% per year for the second ten years of service, and 2.5% per year thereafter. All service earned prior to July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members with five or more years of credited service first hired after June 30, 1986, but before July 1, 1996, may elect major medical benefits. Members first hired after June 30, 1996 must have at least ten years of credited service to be eligible to elect major medical benefits.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99211-0203 or by calling (907) 465-4460.

(b) ***Fund Policy and Annual Pension Cost***

Employees are required, by State statute, to contribute 6.75% of their gross wage to the plan. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Covered payroll for the period ended December 31, 2005 is approximately \$2,131,883 constituting substantially all of the Commission's payroll.

**ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

Notes to Unaudited Financial Statements

December 31, 2005 and 2004

The Commission's annual pension cost for the current year and related information is as follows:

Contribution rates:

Employee	6.75%
Employer	17.65%

Annual pension cost to date	\$ 376,100
Contributions made	\$ 376,100

Actuarial valuation date	June 30, 2004
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay
Amortization period	25-year Fixed
Asset valuation method	5-year smoothed market

Actuarial assumptions:

Inflation rate	3.50% per year
Investment return	8.25% per year, compounded annually, net of expense.

Projected salary increase:

Inflation	3.50%
Productivity and merit	2.00%

Health cost trend:

Medical	9.00%
Prescription	13.00%

In the current year the Commission determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset).

**(11) Commitments and Contingencies**

**(a) Operations**

The Commission included approximately \$10,600,500 in its budget for fiscal year 2006 as reimbursement from the Corporation for administrative and capital expenses incurred on the Corporation's behalf. Amounts paid by the Corporation will be subject to revision based upon actual expenses incurred by the Commission.

**(b) Payment to the State of Alaska**

During fiscal year 2000 the Legislature passed a bill that allows the Corporation to pay the State a return of contributed capital or dividend annually based on net income. If the Corporation's Board of Directors elects to make such a payment, the amount may not be less than 10%, nor greater than 35%, of the Corporation's income before transfers when it equals or exceeds \$2,000,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

# **ALASKA STUDENT LOAN CORPORATION**

(a Component Unit of the State of Alaska)

## **Notes to Unaudited Financial Statements**

December 31, 2005 and 2004

On September 27, 2005 the Corporation's Board of Directors approved a \$1,900,000 Return of Capital payment to the State which will be paid during the fiscal year 2007.

During fiscal year 2004 the Legislature passed a bill allowing the Corporation an additional means to pay the State a return of contributed capital. The Corporation has issued \$163,445,000 of capital project bonds, the proceeds of which are for use in various financial State capital projects.

### **(c) *State Permanent Fund Dividend Seizure***

The Alaska Permanent Fund (Permanent Fund) is a fund held and managed by the State and was established in the Alaska State Constitution in 1976. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund (PFD) annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. The annual PFD paid to each eligible resident for the years 2005 and 2004 was \$846 and \$920 respectively. There can be no assurance that payments will continue. PFD payments could be eliminated or reduced by an amendment to the Alaska Statutes. The Commission may seize a borrower's Permanent Fund Dividend (PFD) payment, if any, to satisfy the balance of a defaulted loan pursuant to Alaska Statutes 14.43.145 and 43.23.067. To do so, the Commission issues certified claim letters to all borrowers of defaulted loans applying for PFDs, notifying them of the Commission's claim. The Commission has seizure priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD seizures collected by the Commission were approximately \$3,000,000 and \$3,400,000 for the years ended December 31, 2005 and 2004, respectively.

The Legislature and the Governor have, from time to time, considered various alternative measures including reducing or restricting the size of the PFD. The Corporation cannot predict whether any such measure will be enacted or the impact any such measure would have on loan collections through PFD seizures.

### **(d) *General***

The education loan program has traditionally been the subject of legislative action by the State. The laws governing the program have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the program cannot be determined.

The Corporation is subject to interest rate risk relating to its variable rate bonds and the loans funded with bond proceeds. The bonds are subject to an interest rate cap of 14% while the loans are subject to an interest rate cap of 8.25% to 9.5% depending on the loan type. The Corporation has various strategies available to manage the risk that the bond rate may rise above the loan rate cap.